

State Employee Benefits Committee
July 20, 2009, 1:00 p.m.
Tatnall Building, Room 112
Dover, Delaware

The State Employee Benefits Committee met on July 20, 2009 at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB
Brenda Lakeman, OMB, Director,
Statewide Benefits
Faith Rentz, OMB, Statewide Benefits
Ann Skeans, OMB, Statewide Benefits
Vicki Ford, OMB, Financial Operations
Mike Morfe, AON
Mary Thuresson, OMB, Statewide Benefits
Casey Oravez, OMB, Financial Operations
Ann Marie Johnson, Department of Justice
Carolyn Berger, Justice, Supreme Court
Lori Christianson, Controller General's Office
David Craik, Office of Pensions
Tom Cook, Acting Secretary of Finance
Nick Adams, Deputy State Treasurer
Crystal Webb, DHSS, Public Health
Karen Welden Stewart, Insurance Commissioner
John Tinsley, Department of Insurance
Linda Nemes, Department of Insurance
Ed Tos, SEBAC Chair/DOL

Tina Hession, PHRST
Tim Barchak, DSEA
Debbie Scanlan, DOE
Donna Mitchell, City of Dover
Elaine Edwards, City of Dover
Rhonda Walker, City of Dover
Joseph Morocco, HMS
Drew Brancati, BCBSD
Faith Joslyn, BCBSD
Katherine Impellizzeri, Aetna
Julie Caynor, Aetna
Wayne Kee, Dominion Dental
Jim Tester, DSEA retired
Steve Smith, DSEA, retired
Nancy Feldman, AFLAC
Clarice Kwasnieski, AFLAC
Dallas Bolhop, AFLAC
Virginia Lisseff, AFLAC
Dave Leiter, DHSS, Facilities Op.

Agenda Items Discussed:

Introductions/Sign In

Ms. Visalli called the meeting to order at 1: 00 p.m. Justice Carolyn Berger from the Supreme Court was recognized and welcomed. Introductions around the room followed.

Approval of Minutes

Ms. Visalli asked for a motion to approve the June 22, 2009 SEBC minutes. Mr. Adams made the motion to approve the minutes and Mr. Cook seconded the motion. The minutes were approved with unanimous voice vote.

Director's Report

Ms. Lakeman reported there were 701 individuals who did not complete and return Spousal Coordination of Benefits forms. Effective, July 1, 2009, these spouses have been sanctioned and were notified via letters mailed last week. Of those sanctions, Blue Cross had 587 and Aetna had 114. There are over 18,000 contracts containing spousal coverage.

The State has completed the first reporting of individuals eligible and receiving the COBRA subsidy. For the time period of March through May 2009, 16 individuals were identified as

involuntarily terminated, eligible and enrolled to receive the subsidy. Through the State's 941 payroll tax reporting, the Group Health Fund will be receiving a credit in the amount of \$21,160 as reimbursement for the subsidy extended to these individuals during the 2nd quarter of calendar year 2009. Payment to the fund should be made by late September. The Statewide Benefits office continues to negotiate a High Tech Imaging Management Program pilot with Blue Cross. Additional information will be available in a few months.

Thomson Reuters, our data mining vendor, has been engaged to perform a duplicate medical claims analysis. They will search our database for a 36 month period to determine if there are claims that have inadvertently been paid twice. The initial phase of the analysis will be complete in September. If warranted, meetings will follow with vendors to investigate findings.

Health Fund Financials

Fund and Equity Report – Vicki Ford (handout)

The Fund and Equity report for the period ending June 30, 2009 reflects approximately a \$5 million dollar difference from the previous month due to an extra week of claims paid to Blue Cross and Medco. The ending balance as of June 30, 2009 was \$2.2 million.

Health Fund Reserve Methodology – Mike Morfe (handout)

Ms. Visalli explained that an appropriate methodology was needed for maintaining reserve funds for payment of claims. Last year members of the committee requested additional research on best practices and industry standards with regards to calculating and maintaining appropriate reserves for self insured health plans. An acceptable methodology is necessary to demonstrate fiscal responsibility and to support and fund unexpected rises in claims. Commissioner Stewart and her staff were thanked for assisting with this research. Mr. Morfe presented the following research findings and recommendations to the committee.

Two Month Reserve Analysis – Review of Issues

- Fund Equity Report contains an assignment of Surplus for “Two Months Reserve” – This assignment currently serves two purposes
 - Funding of Incurred but not Paid Claims
 - Reserve for Fluctuation and Variance for a Risk Bearing Enterprise
- The SEBC has discussed viewing the allocation method and purpose at various SEBC meetings over the past fiscal year
- Purpose of this presentation is to:
 - Establish purpose
 - Establish allocation mechanism
 - Reformat assignment(s) in Fund Equity Report
- Value of Two Month Reserve assignment is \$73.5M

Financial Review – Incurred but not Paid

- The Group Health Insurance Program operates as a Risk Bearing Enterprise
 - Receives Insurance Premiums
 - Responsible for paying claims and expenses
 - Requires surplus for actual to expected (insurance) variances monthly and annually

- Insurance Premiums contain provision for paying claims incurred in the fiscal year but paid thereafter
 - This liability is called the Incurred but not Paid liability
 - Quarterly Reporting contains the best-estimate of the liability – approximately \$34M
 - Review of previous fiscal year end payments validate this liability

Financial Review

- Risk Bearing Enterprises require minimum surplus (also known as capitalization) to operate
- Insurance Commissioners have been given guidance by the National Association of Insurance Commissioners regarding the appropriate level of surplus for Risk Bearing Enterprises that they regulate
 - Called Risk-Based Capital, or RBC
 - Delaware utilizes RBC for their Insurance oversight
 - RBC is a complex formulation recommended by the American Academy of Actuaries to the NAIC
- Recommending a minimum level of surplus, loosely based on RBC methods, that is easy to implement

Risk-Based Capital – Quick Overview

- The risk-based capital formula establishes a hypothetical minimum capital level that is compared to a enterprise's actual capital level
- Compared on a ratio basis, actual to hypothetical
- Resulting ratio falls into one of five categories, that for simplification purposes we have moved to green/yellow/red:
 - Green: 200% or more – no action required by the Insurance Commissioner
 - Yellow: 100% to 200% -- Notification required, but no action required, by the Insurance Commissioner
 - Red: 100% or less – Action required by the Insurance Commissioner

Risk-Based Capital – Results

- Aon performed an RBC calculation earlier this fiscal year and found the minimum Green Level to be \$45M.
- This equates to approximately 10% of the prior fiscal year expenses of the GHIP
 - Aon report: \$454M in expenses for FYE 6/30/2008
- Recommend adopting a formula for assigning minimum surplus equal to 10% of final expense in previous fiscal year
 - Equates to \$50M for July Fund Equity and FYE 2010
 - Current projection of FYE 2009 expenses: \$501M

Fund Equity Results

- Replace assignments of Two Months Reserve (\$73.5) and Contingency Reserve (\$5M) with Incurred but not Paid Liability (\$34M) and Minimum Surplus (\$50M) for the July Fund Equity Report
 - Requires approximately \$5M move from Net Fund Equity balance to assignments
- Update Frequency:
 - Minimum Surplus – Annually, for July (may be fine-tuned in September at presentation of final consultants report)
 - Incurred but not Paid - Quarterly

Process Results

- Aon discussed Minimum Surplus and performed RBC calculation with Director and Staff
- Discussions held with Insurance Commissioner Welden Stewart and staff
- Commissioner raised concerns about truly catastrophic events
 - Greater than the entirety of the Fund Equity Balance, currently \$117M
 - Equates to between 120% and 125% of expected expenses

Catastrophic Review

- Purchasing insurance protection for this risk is typically called “Aggregate Stoploss Insurance”
- Aon observes that it is extremely rare for large groups such as this to purchase aggregate stoploss
 - The probability of a claim, in actuarial models, is effectively zero
- SEBC has options regarding this risk
 - Assume risk, borrow funds if risk emerges
 - Investigate marketplace for Aggregate Stoploss by investing resources

Commissioner Stewart explained how the Insurance Department determines reserve risk and noted specifically that an insurer with a Risk Based Capital ratio of 241 % would be on the department’s “watch” list. Ms. Visalli stated the proposal is movement in the right direction. The Group Health Insurance Program is not an insurance company and there is hesitancy in taking a more conservative approach than what is being recommended. Ms. Visalli asked for a motion to approve the methodology as presented by Mr. Morfe. Mr. Cook made the motion and Ms. Christiansen seconded the motion. Upon a unanimous voice vote, the motion was approved.

Flexible Spending Account/Pre-Tax Commuter Program Request For Proposal (RFP) Award Recommendation – Brenda Lakeman (Handout)

A brief background was given. There were seven vendors who placed bids for the April 1, 2009 RFP. Three were invited to continue in the RFP process after high level analysis was conducted by Aon Consulting. During Proposal Review Committee (PRC) meetings in June and July, the detailed Aon analysis was presented and discussed and finalist interviews were conducted. A final meeting of the PRC was held to review follow-up information and best and final offers. The PRC scored each of the three finalists and reached consensus on a recommendation to the SEBC.

Recommendation

RESOLVED that with respect to the award of a contract pursuant to the Request for Proposal (RFP) for administration of the State of Delaware’s Flexible Spending and Pre-Tax Commuter Benefit Services, the Proposal Review Committee recommends to the State Employee Benefits Committee as follows:

Contract award for FSA/Pre-Tax Commuter administration to ASI for an initial term of two years beginning January 1, 2010. Rates shall be guaranteed for three years as provided in the RFP response and best and final pricing. The State shall pay the monthly administrative fee for each participant. Such award shall be subject to a finalized contract which shall include proposed Performance Guarantees intended to place 10% of total ASI fees at risk annually. Additionally, ASI and the State of Delaware shall mutually agree upon making the debit card available to members enrolling for the 2010 plan year for a

cost of \$12 per plan year. This amount shall be paid by the member and will be deducted from their annual election amount available for reimbursement at the start of the plan year.

Ms. Lakeman presented the recommendation verbatim and asked for a motion for approval. Commissioner Stewart made the motion and Mr. Cook seconded. The motion was approved upon a unanimous voice vote.

SEBAC Comment

None.

Public Comments

Dave Leiter – DHSS – State Employee – asked if next year things will go back to the way they were before state employee wages were decreased 2.5%, benefits were changed (increased premiums) and if various other taxes that are being increased will revert back. He also noted he has not yet received a response to his questions asked at the last SEBC meeting about Double State Share and non Medicare retirees.

Ms. Visalli explained that each year health premiums are looked at and rates set accordingly. It is an ongoing process. His previous questions had been discussed and responses will be sent to him.

Other Business

None.

Ms. Visalli stated the committee needed to go into Executive Session and there would be no further business for the SEBC following the Executive Session. She asked for a motion to move into Executive Session. Commissioner Stewart made the motion and Mr. Cook seconded the motion. With a unanimous voice approval the SEBC moved into Executive Session at 1:35 p.m.

At 1:45 p.m., the SEBC moved from Executive Session to public session. A reminder was given that the next SEBC meeting is scheduled for August 17, 2009. Ms. Visalli asked for a motion to adjourn. Mr. Cook made a motion to adjourn and Commissioner Stewart seconded the motion. Upon unanimous voice approval the meeting adjourned at 1:46 p.m.

Respectfully submitted,

Mary K. Thuresson
Administrative Specialist
Statewide Benefits Office, OMB